

---

## Loan Portfolio Diversification Program

---

### Examination Objectives

To determine if the established policies, procedures, and controls regarding loan portfolio diversification adequately ensure safety and soundness, profitability, and compliance with laws and regulations.

To determine if the officers and employees of the thrift are aware of the policies and are conforming to them.

To determine the loan portfolio mix and assess the effects on credit risk.

To evaluate management's awareness of potential strengths and problem areas of the loan portfolio mix.

To assess risk reduction efforts and surrounding factors where concentrations exist.

### Examination Procedures

#### Level I

#### Wkp. Ref.

1. Review scoping materials applicable to loan portfolio diversification, and if other examiners reviewed items concerning this program, obtain a written or oral summary of their findings. Scoping materials include: reports from the examiner performing the lending risk assessment; the National Financial Monitoring System; the continuing examination file (CEF), if applicable; the supervisory correspondence file; the prior examination report; and the preliminary examination response kit (PERK). It may be helpful to complete Questionnaire 211, Loan Portfolio Diversification.
2. Obtain and review written policies, procedures, strategic plans, and board of directors' minutes or work papers derived from these sources. From these sources, record management's goals and objectives on loan portfolio diversification (see Program 210, Lending Risk Assessment):
  - Determine whether the lending policy addresses avoidance of or otherwise covers specific concentrations of credit.
  - Determine if the goals and objectives concerning the mix of the loan portfolio are quantified.

**Exam Date:** \_\_\_\_\_

**Prepared By:** \_\_\_\_\_

**Reviewed By:** \_\_\_\_\_

**Docket #:** \_\_\_\_\_

---

## Loan Portfolio Diversification Program

---

**Wkp. Ref.**

- Ascertain whether the quantified goals and objectives constitute a change in management's direction from the previous examination.
  - Note who has authority to determine mix.
  - Verify that guidelines and procedures on minimizing credit risk through diversification are disclosed to lending personnel.
  - Determine how compliance with policy is ensured and monitored.
- 
3. Review the preceding report of examination and all loan portfolio diversification-related exceptions noted and determine if management has taken appropriate corrective action.
- 
4. Economic conditions: Evaluate procedures for monitoring local, regional, national, and international economic conditions as appropriate for the thrift.
- 
5. Review regulatory limits and loans-to-one-borrower work papers and the asset-limitations work paper from the PERK and comment on violations of thrift goals as well as of state and federal regulations.
- 
6. Through the review of gathered information, observations, and discussions with management and other personnel, determine:
- The adequacy of established policies, procedures and strategic plans for addressing safety and soundness, including internal controls, profitability, and compliance with laws and regulations;
  - The level of compliance with policies, procedures and strategic plans;
  - Management's competence to carry out duties and responsibilities in a manner that provides for profitability, safe and sound operations, and compliance with laws and regulations;

**Exam Date:**

**Prepared By:**

**Reviewed By:**

**Docket #:**

---

---

---

---

---

## Loan Portfolio Diversification Program

---

**Wkp. Ref.**

- The adequacy of management reports and information systems to provide management and directors with accurate decision-making information and the ability to monitor compliance with internal guidelines and regulatory investment limits and limits on loans to one borrower;
- The level of compliance with laws and regulations;
- The existence, cause, and extent of any factors that threaten or enhance future viability of the thrift; and
- Corrective action to be recommended or required.

---

7. Complete the General Questionnaire.

---

8. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

---

### Level II

9. List all significant concentrations of credit, with dollar amounts and percentages of total assets or of capital and allowances as applicable. This should include totals on participations purchased from each source. The analysis will disclose the composition of the loan portfolio as of a recent convenient date. Significant changes and trends in the composition on a comparable date should be noted with management's comments as to why significant changes occurred.

---

10. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

---

**Exam Date:** \_\_\_\_\_

**Prepared By:** \_\_\_\_\_

**Reviewed By:** \_\_\_\_\_

**Docket #:** \_\_\_\_\_

---

## Loan Portfolio Diversification Program

---

Wkp. Ref.

**Examiner's Summary, Recommendations, and Comments**

**Exam Date:**

**Prepared By:**

**Reviewed By:**

**Docket #:**

---

---

---

---